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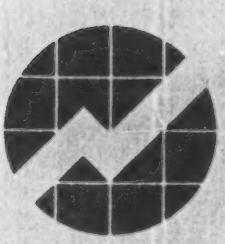
KEDI ECONOMIC SURVEY

JULY 1982 ISSUE



KENT ECONOMIC
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INSTITUTE

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KEDI ECONOMIC SURVEY

JULY 1982 ISSUE

President: Vladimir J. Simunek

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Editor and Assistant Writer: Diane L. Lewis

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This forecast uses the June, 1982, U.S. Department of Commerce revised National Income and Product data. Also used is the June 1982, Board of Governors of the Federal Reserve System release of the Index of Industrial Production, and the latest available data on prices, employment, industrial, and financial developments.

1.00 OVERVIEW AND ASSUMPTIONS

1.01 OVERVIEW

The economic news continues to reflect general flatness, the continuation of some declines, and a few glimpses of gains. As has been forecast here for many months, there will be some slow recovery starting in the latter part of this year. However, the rebound will not be so weak that only cloistered economists will notice it.

1. During 1983 and 1984, the growth will accelerate

2. In 1985, there will be some slowdown

3. Growth will resume in 1986.

The deficit of the federal budget for fiscal 1983 approved by the Senate amounted to $116 billion. The House-Senate Conference approved the figure of $104 billion. Calculations here show that $104 billion is not very realistic.

The world economy is seen here at KEDI as being in a slump for about one more year. Signs of improvement will begin to emerge in the second half of 1983.

This Institute is a bit more optimistic than the International Monetary Fund which forecasts the world economy as being in a slump for the next year and one-half. KEDI forecasts show the United States LEADING in world recovery with other nations following.

1.02 ASSUMPTIONS

The following assumptions are part of this forecast. Compared with assumptions incorporated into the last issue, the changes concern the updates of Assumption No.7.

1. In 1986, all U.S. demand for oil should be met. In 1982, it is

ASSUMPTIONS

expected the weighted price of oil will be $33; in 1983 it will go up to $34 per barrel; in 1984, to $37 per barrel; in 1985, to $40 per barrel; and in 1986, to $42 per barrel.

2. It is expected, that the Mid East crisis will continue throughout this year, and more normal economic conditions, including a significant resumption in the area of oil exports, will take place not earlier than in 1984.

3. High interest rates and restrictive monetary and credit policies will generally prevail in the 1982-1986 period. In 1982, some relaxation, and in 1983-1984, tightening is assumed.

4. Increases in state and local taxation in 1982-1986 are anticipated.

5. Our foreign trade with China will gain a substantial momentum in 1982 and following years.

6. In 1982 and 1983 good harvests are assumed for this country and average production of crops is expected in the U.S.S.R. A low harvest in the U.S.S.R. is expected in 1984. The years 1984 and 1985 should bring U.S. record crops.

It is projected here that the average rates of growth in 1982-1986 in the major industrial countries will be as follows for real GNP: West Germany 3.4%, Japan 3.6%, Italy 2.4%, Great Britain 2.1%, France 2.8%.

8. No drastic changes in existing international relationships are assumed in this forecast.

The July 1982 KEDI forecast is highlighted in Table 1.0 KEDI FORECAST HIGHLIGHTS on page No.3.

KENT ECONOMIC AND
DEVELOPMENT INSTITUTE

MONTH: July 1,1982

KEDI FORECAST HIGHLIGHTS

Table 1.0

Indicator	Unit	1981	1982	1985	1986
Gross National Product	bil. const. 72 $	1510.3	1492.3	1693.7	1754.1
Index of Industrial Production	1967 =100	151.0	143.8	174.8	178.6
Capacity Utilization	%	78.5	71.1	79.7	81.0
Unemployment Rate	%	7.6	9.0	7.3	6.9
Private Housing Starts	mil. units	1.084	1.085	1.729	1.792
Car Sales	mil. units	8.6	8.0	9.3	10.1
Implicit GNP Price Deflator	1972 =100	193.7	205.4	237.9	256.8
Consumer Price Index	1967 =100	272.4	289.0	356.3	382.9
Producer Price Index	1967 =100	269.7	281.1	357.5	389.8
Federal Deficit	bil. $	-62.4	-129.2	-66.4	-41.5
Personal Income	bil. $	2404.1	2538.3	3271.6	3501.2
Prime Rate	%	18.87	16.00	13.89	13.06
Mortgage Rate	%	16.52	16.97	13.54	12.61
Currency plus Demand Deposits	bil. $	427.1	457.2	546.3	580.2
Commercial and Industrial Loans	bil. $	360.6	388.9	434.6	474.5

1.10 REAL GROWTH

(Table 1.10 on page 5)

The end result of the various small moves during the second quarter--some slight downward data and whisps of upturns--will be an essentially flat period. The third quarter is seen here as showing elements of a modicum of s'ightly respectable recovery while the last quarter will lead into some escalation of growth in 1983. Due to the declines that took place in the first part of this year, the average change in GNP for the year will show a negative figure.

In earlier issues, KEDI complimented the Administration on getting inflation under control but lamented the overly optimistic early pronouncements about the economy. When those did not come true, they contributed to business getting too "down" and the accenting of the negative in the media.

Now, there are elements that are going too far in the other direction. Radio commercials push the sale of a leading economic newspaper because "recovery is just around the corner." Budget Director Stockman sees the economy growing in the 4-5 per cent range in the last six months of this year.

Just hold your horses here. The pendulum went swinging too far toward gloom before and now the reverse is true in some areas. KEDI calculates growth in the latter part of this year as being in the 3-3½ per cent area. Again, the negative first quarter will offset that in the yearly average. Reports surfacing during the last month lend credence to the view that recovery is not yet beginning, and it will be quite slow.

TABLE 1.10 REAL GROWTH
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Gross national product, 1972 $	bil. 1972 $	1510.3	1484.5	1485.2	1489.8	1509.7	1492.3	-1.1
Index of industrial product.	1967=100	151.0	141.6	141.4	145.1	147.2	143.8	-4.8
Unemployment rate	%	7.6	8.8	9.5	9.0	8.6	9.0	18.0
Capacity utilization rate	%	78.5	71.5	70.3	70.8	71.8	71.1	-9.4
Private housing starts	mil. units	1.084	.919	1.075	1.172	1.177	1.085	.1
Car sales	mil.	8.6	8.3	7.7	7.9	8.0	8.0	-7.0

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Gross national product, 1972 $	bil. 1972 $	1492.3	1528.6	1540.7	1560.3	1581.2	1552.7	4.0
Index of industrial product.	1967=100	143.8	151.2	155.1	158.8	162.0	156.8	9.0
Unemployment rate	%	9.0	8.5	8.1	7.8	7.6	8.0	-11.0
Capacity utilization rate	%	71.1	72.6	74.8	76.0	76.1	74.9	5.3
Private housing starts	mil. units	1.085	1.203	1.507	1.612	1.634	1.489	37.2
Car sales	mil.	8.0	8.3	7.9	8.3	8.4	8.3	2.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Gross national product, 1972 $	bil. 1972 $	1552.7	1598.1	1618.9	1632.4	1658.7	1627.0	4.8
Index of industrial product.	1967=100	156.8	164.3	165.7	166.8	168.0	166.2	5.7
Unemployment rate	%	8.0	7.4	7.3	7.2	7.1	7.3	-9.2
Capacity utilization rate	%	74.9	77.7	78.6	79.5	80.1	79.0	5.5
Private housing starts	mil. units	1.489	1.600	1.646	1.717	1.680	1.661	11.6
Car sales	mil.	8.3	9.0	8.9	9.1	9.4	9.1	9.6

* Historical Data (1) % change over previous year

REAL GROWTH

Negative News

1. Construction spending edged down in April by 0.6 per cent from the prior month. The pace was 5.6 per cent lower than the April, 1981, level.

2. Capital spending remains low. KEDI expects it to continue that way. Alan Greenspan of Townsend-Greenspan (economic forecasting) expects inflation-adjusted spending to decline 3 per cent this year. KEDI calculates the drop a bit less than that: 2 per cent is the inflation adjusted change from the 1981 level. The Commerce Department survey of plans for capital spending shows a slight decrease of less than 2 per cent between the first and second quarters and similar gain between the second and third quarters. For the year, the survey, done in April and May, reflects a decline of 2.4 per cent from the 1981 level.

3. The American Iron and Steel Institute reported that the industry used 42.5 per cent of operating capacity in early June. The year-ago rate was 84 per cent. Steel is one of the industries that will continue to have serious problems this year. Steel production was down to 1.365 million tons in the last week of May and edged down again in the first week of June to 1.260 tons.

4. The operating rate of factories moved down to 70.8 per cent in May from 71 per cent in April. That rate has been falling since February, but recent declines have slowed.

5. Also flattening is the Index of Industrial Production which only declined by 0.2 per cent in May. Again, these small changes point to some future improvement.

6. Retail sales gained 1.5 per cent in May. This, again, reflected auto sales which are in a temporary mini-spurt.

REAL GROWTH

Robert Ortner, chief economist at the Commerce Department, publicly mentioned what KEDI has been saying for some time: The recovery will be led by the consumer. However, this Institute is not quite as cheerful as Data Resources. An economist there pointed to third quarter retail sales rising 9 per cent if interest rates don't increase. KEDI sees such sales gaining in the 4 per cent range in the third quarter.

Better News

7. Machine tool orders did go up 12 per cent in April but the gain was largely attributable to a drop in cancellations of previous orders. The total was still about at half the rate for the comparable year-earlier figure.

8. Housing starts jumped 22.3 per cent in May. KEDI views the news as good. However, it is not seen as the start of a trend of ever-increasing starts at this point.

9. The composite index of leading indicators moved up in April for the first time this year. In April it was at 125.2 per cent of the 1967 average as compared to the revised rate of 124.2 in March.

10. The Conference Board survey of consumer confidence released in early June showed that Americans are increasingly optimistic about the economic future.

11. New factory orders for durable goods went up 1 4 per cent in May. They had declined a revised 3.6 per cent in April.

12. Personal income posted a respectable gain in April. (See Section 1.60)

Overall, the news is mixed as it has been in recent months. The declines are getting smaller. There are more hints of improvement to come. KEDI maintains the view that the fourth quarter of this year will be the best

REAL GROWTH

of the year, but it will not merit any big celebration. Perhaps, a toast to the start of some gradual growth will be in order then.

1.20 PRICES

(Table 1.20 on page 9)

KEDI's forecast continues to show that the inflation rate as measured by the CPI will accelerate in the coming months. This is mainly because of the expected increases during the rest of this year in the following:

gasoline and heating oil prices,

continuing double digit gains in costs of medical services,

and electricity price rises.

The projection at this Institute shows price increases of over 10 per cent in four areas.

Price changes in 1982 over 1981	
Electricity	+12%
Gasoline	+16%
Heating oil	+15%
Medical and other health services	+11%

The average annual CPI inflation rate in 1982 is projected here as 6.0 per cent. That is a slight gain over the forecast last month of 5.8.

In May, consumer prices jumped ahead by an adjusted 1.0 per cent after posting only a 0.2 per cent increase in April. In the 12 months ending in May prices went up 6.7 per cent.

TABLE 1.20 PRICES AND NOMINAL GNP
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Consumer price index	1967=100	272.4	283.6	287.0	290.4	295.6	289.0	6.1
Producer price index**	1967=100	269.7	277.2	277.6	282.8	286.9	281.1	4.2
Implicit GNP price deflator	1972=100	193.7	202.0	204.2	206.3	208.9	205.4	6.0
Gross national product	bil.$	2925.5	2998.4	3032.8	3073.5	3153.8	3064.6	4.8
Personal consump. expend.	bil.$	1857.8	1946.7	1953.5	1966.3	1990.5	1964.3	5.8
Gross private dom. investment	bil.$	450.5	393.8	441.3	478.5	492.6	451.6	.2

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Consumer price index	1967=100	289.0	301.0	305.4	310.9	314.8	308.2	6.6
Producer price index**	1967=100	281.1	290.3	297.5	303.4	307.8	299.8	6.7
Implicit GNP price deflator	1972=100	205.4	212.9	215.9	219.5	224.3	218.2	6.2
Gross national product	bil.$	3064.6	3254.4	3326.4	3424.9	3546.6	3388.1	10.6
Personal consump. expend.	bil.$	1964.3	2048.3	2108.3	2193.4	2262.5	2150.6	9.5
Gross private dom. investment	bil.$	451.6	502.1	506.7	514.3	519.8	510.7	13.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Consumer price index	1967=100	308.2	319.5	326.9	334.0	342.1	330.6	7.3
Producer price index**	1967=100	299.8	311.5	318.2	327.0	338.5	323.8	8.0
Implicit GNP price deflator	1972=100	218.2	227.8	231.6	236.2	242.9	234.6	7.5
Gross national product	bil.$	3388.1	3640.5	3749.4	3855.7	4029.0	3818.6	12.7
Personal consump. expend.	bil.$	2150.6	2322.8	2391.1	2441.7	2509.8	2416.4	12.4
Gross private dom. investment	bil.$	510.7	534.6	565.7	595.8	618.4	578.6	13.3

* Historical Data (1) % change over previous year **Finished goods

1.30 EMPLOYMENT AND LABOR

(Table 1.30 on page 11)

The basic forecast remains the same. There is a 0.1 addition to the projection for the rate of unemployment this year to 9.0. KEDI is not as pessimistic as some economists that see the rate peaking around 10.2 in August. That is a figure used by Joel Popkin, an economic consultant. Also, the consensus of 12 leading economists surveyed by The Wall Street Journal showed an average peak possible of 10 per cent or more this summer.

Indications are that joblessness is reaching a level position. A positive sign is that the average workweek in manufacturing for production workers rose to 39.1 hours in May from the 39.0 average in April. At least, it did not decline.

Unemployment in May averaged 9.5 per cent. KEDI does not expect the unemployment rate will go up significantly in the coming months.

The forecast by KEDI for the yearly unemployment rate is presented:

	Unemployment Rate (year averages)
1982	9.0 %
1983	8.0 %
1984	7.2 %
1985	7.3 %
1986	6.9 %

The International Monetary Fund predicts that unemployment in this country will average 9 per cent this year and about 9.5 per cent in 1983. KEDI obviously agrees with the former but not the 1983 figure.

TABLE 1.30 EMPLOYMENT AND LABOR
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Population	mil.	225.9	228.0	229.2	230.4	231.4	229.6	1.6
Civilian labor force	mil.	108.7	109.1	110.3	110.9	111.8	110.6	1.7
Employment	mil.	100.5	99.6	99.8	101.0	102.2	100.6	.1
Agriculture	mil.	3.4	3.4	3.4	3.3	3.3	3.4	.0
Non agriculture	mil.	97.1	96.2	96.4	97.6	98.8	97.2	.1
Unemployment Rate	%	7.62	8.77	9.54	9.01	8.64	8.99	18.0

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Population	mil.	229.6	231.5	232.2	232.9	233.4	232.5	1.3
Civilian labor force	mil.	110.6	112.6	113.8	114.9	115.8	114.3	3.3
Employment	mil.	100.6	103.1	104.5	106.0	107.0	105.1	4.5
Agriculture	mil.	3.4	3.3	3.4	3.3	3.4	3.4	.0
Non agriculture	mil.	97.2	99.8	101.1	102.7	103.6	101.8	4.7
Unemployment Rate	%	8.99	8.47	8.14	7.78	7.61	8.00	-11.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Population	mil.	232.5	234.5	235.2	236.0	236.9	235.7	1.4
Civilian labor force	mil.	114.3	117.0	117.9	118.8	120.1	118.5	3.7
Employment	mil.	105.1	108.3	109.3	110.3	111.5	109.9	4.6
Agriculture	mil.	3.4	3.3	3.3	3.4	3.4	3.4	.0
Non agriculture	mil.	101.8	105.0	105.9	106.9	108.1	106.5	4.6
Unemployment Rate	%	8.00	7.43	7.31	7.16	7.14	7.22	-9.2

* Historical Data

(1)% change over previous year

1.41 HOUSING

(Table 1.41 on page 13)

Housing starts went above an annual rate of a million in May for the first time since last summer. The annual rate went up by 22.3 per cent in May to 1.09 million. The gain is viewed here as a temporary one. Given mortgage rates and the general economic conditions, such rapid improvement cannot be sustained. Mortgage rate are seen as continuing at high levels throughout this year. KEDI agrees with Donal Straszheim of Wharton Econometrics that the housing sector cannot be vibrant until mortgage rates slide. (One can speculate as to what "E.T.'s" home alluded to in the movie might be like and hope there isn't a high interest mortgage on it.)

Building permits issued also had a strong showing in May. They were up 10.2 per cent over April.

The government released housing funds in May that helped fuel the jump in starts--especially of multifamily units that are government subsidized. Such a release of funds does not happen every month.

The forecast here that the main housing thrust will be in multi-family units is maintained.

KEDI has been forecasting for quite some time that housing will not lead us out of recession, nor will autos as has been true in the past.

A negative sign was the continuation of lousy sales for new single-family houses. They went plunging down by 15.3 per cent to an annual rate of just 315,000. The few homes that are selling are often going for lower prices than the paper value of a year or two ago. The National Association of Realtors estimates prices have gone down an average of 17 per cent since the end of 1979 including figuring in the effects of discount financing. Still, it gets more and more costly to build a home and that will

TABLE 1.41 HOUSING
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.706	.586	.607	.661	.659	.628	-11.3
Multifamily housing starts	mil.	.379	.333	.468	.511	.516	.457	20.6
Mobile home shipments	mil.	.241	.237	.253	.278	.292	.265	10.0
Permits authorized	mil.	.969	.832	.952	.974	1.086	.961	-.9
1-family unit** price, new	tho.	83.1	82.0	84.3	85.6	86.8	84.7	1.9
1-family unit** price,existing	tho.	78.0	79.3	80.1	81.2	82.0	80.7	3.5

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.628	.711	.886	.898	.913	.852	35.7
Multifamily housing starts	mil.	.457	.492	.621	.714	.721	.637	39.4
Mobile home shipments	mil.	.265	.314	.348	.383	.365	.353	33.2
Permits authorized	mil.	.961	1.159	1.396	1.531	1.682	1.442	50.1
1-family unit** price, new	tho.	84.7	87.4	88.5	89.7	90.4	89.0	5.1
1-family unit** price,existing	tho.	80.7	82.6	83.8	84.9	85.6	84.2	4.3

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Single-family housing starts	mil.	.852	.897	.914	.986	.954	.938	10.1
Multifamily housing starts	mil.	.637	.703	.732	.731	.726	.723	13.5
Mobile home shipments	mil.	.353	.342	.351	.373	.378	.361	2.3
Permits authorized	mil.	1.442	1.624	1.718	1.798	1.789	1.732	20.0
1-family unit** price, new	tho.	89.0	92.3	93.6	94.8	96.7	94.4	6.1
1-family unit** price,existing	tho.	84.2	87.0	88.1	89.5	91.3	89.0	5.7

* Historical Data **Not seasonally adjusted (1)% change over previous year

HOUSING

continue. At the same time, few can afford them. The average sales price was over $72,000 in April.

1.42 AUTOMOBILES

(Table 1.42 on page 15)

The forecast here is unchanged. The May increase in sales is viewed here as a mini-spurt attributable to rebates and other incentives. May sales were up 11.6 per cent for domestic cars, but the early June sales were a tad lower than they were in early June of last year. Preliminary estimates show a slight edging down of 0.1 per cent year-to-year.

Production plans remain cautious as the table here shows(second quarter 1982):

	1982	1981	% change
GM	960,000	1,255,700	-23.5
Ford	407,000	436,900	-6.8
Chrysler	170,000	242,100	-29.8
AMC	11,000	31,300	-64.9
VW	24,800	46,500	-46.7
Total	1,572,800	2,012,500	-21.8

For the third quarter of this year, car production is expected to remain close to the second quarter level.

The import share of the market went down 7 per cent this May from the year-earlier level. Imports share came to 24.4 per cent this May. The change is in line with the forecast maintained here for quite some time.

A new government booklet notes that it now cost 26.6 cent to drive a large car one mile, 23.8 cents to drive an intermediate one, 21.4 cents for a compact, and 18.9 cents for a sub-compact. In the first three years of ownership, gas will cost about $1,800 more for the large car than the subcompact. (Roominess and comfort do have continuing costs.)

TABLE 1.42 AUTOMOBILES
(Unless otherwise stated, quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Passenger cars:								
Total sales	mil.	8.6	8.3	7.7	7.9	8.0	8.0	-7.0
Domestic	mil.	6.3	6.0	5.9	6.0	6.0	6.0	-4.7
Imported	mil.	2.3	2.3	1.8	1.9	2.0	2.0	-13.0
Dealers inventories**	mil.	1.5	1.1	1.4	1.2	1.5	1.3	-13.3
Factory shipments**	mil.	6.3	4.1	5.0	5.3	6.3	5.2	-16.5
Light-duty truck sales	mil.	1.6	1.9	1.7	1.8	1.9	1.8	12.5

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Passenger cars:								
Total sales	mil.	8.0	8.3	7.9	8.3	8.4	8.3	3.4
Domestic	mil.	6.0	6.4	6.0	6.3	6.4	6.3	3.3
Imported	mil.	2.0	1.9	1.9	2.0	2.0	2.0	.0
Dealers inventories**	mil.	1.3	1.4	1.2	1.3	1.3	1.3	.0
Factory shipments**	mil.	5.2	6.1	6.3	5.9	6.7	6.2	19.2
Light-duty truck sales	mil.	1.8	1.8	2.0	2.2	2.0	2.0	11.1

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Passenger cars:								
Total sales	mil.	8.3	9.0	8.9	9.1	9.4	9.1	9.6
Domestic	mil.	6.3	7.1	6.8	7.3	7.5	7.2	14.3
Imported	mil.	2.0	2.0	2.1	1.9	2.1	2.0	.0
Dealers inventories**	mil.	1.3	1.2	1.7	1.5	1.7	1.5	15.4
Factory shipments**	mil.	6.2	7.2	7.5	7.1	7.7	7.4	19.4
Light-duty truck sales	mil.	2.0	2.0	2.1	2.2	2.3	2.2	10.0

* Historical Data **Seasonally not adjusted (1)% over previous year

1.50 GOVERNMENT BUDGETS

(Table 1.50 on page 17)

No essential changes took place in this forecast. The size of the federal budget deficit for fiscal 1983 has been reduced by $1 billion in this forecast when compared with the KEDI's previous projection. A joint committee of the House and Senate recently adopted a 1983 fiscal budget proposal with a deficit of $103.9 billion. The evaluation at this Institute is that it is too optimistic. Our forecast is for $120 billion (slightly changed from $121 billion last month).

KEDI Forecast of the Federal Budget Deficits

(By fiscal year, billions $)

1984	1984	108
	1985	78
	1986	54

Again, calculations show that even with deficits of this size, THERE WILL NOT BE ENOUGH PRESSURES TO PUSH INTEREST RATES UP. As was pointed out in the last issue, there are surplus funds in the totals for the households, state and local governments, and financial sectors that can help absorb budget deficits without a surge in interest rates. In fact, there will be some room for gradual declines in interest rates. However they still will be at historically high levels.

The updated 1982-85 KEDI forecast of sources and uses of funds is given here, As can be seen in the following table on page 18, in 1982 the net financial needs of businesses will require roughly $77 billion. However, during 1983-85, the projection shows substantial increases in funds available for business financing (providing that Federal needs will decline as indicated). The $25-30 billion yearly gains in funds available to

TABLE 1.50 FEDERAL AND STATE AND LOCAL BUDGETS
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil. $	296.2	299.7	301.5	275.8	280.9	289.5	-2.3
Corporate prof. tax accruals	bil. $	66.0	45.0	46.3	46.9	49.1	46.8	-29.1
Surplus/deficit	bil. $	-62.4	-123.5	-127.1	-147.9	-118.1	-129.2	207.1
State and local governments:								
Income taxes	bil. $	91.9	98.3	101.2	104.6	111.0	103.8	12.9
Corporate prof. tax accruals	bil. $	11.7	8.7	8.1	8.9	10.4	9.1	-22.2
Surplus/deficit	bil. $	36.7	36.3	37.1	36.3	34.2	36.0	-1.2

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil. $	289.5	301.9	303.8	272.8	286.4	291.2	.6
Corporate prof. tax accruals	bil. $	46.8	51.5	62.3	73.1	78.6	66.3	41.7
Surplus/deficit	bil. $	-129.2	-103.4	-91.4	-114.5	-101.6	-102.9	-20.4
State and local governments:								
Income taxes	bil. $	103.8	114.7	117.0	121.5	124.6	119.4	15.0
Corporate prof. tax accruals	bil. $	9.1	11.2	12.6	14.0	16.5	13.5	48.4
Surplus/deficit	bil. $	36.0	33.8	34.5	35.8	36.4	35.1	-2.5

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Federal govt.:								
Income taxes	bil. $	291.2	303.5	313.8	329.8	343.8	322.7	10.8
Corporate prof. tax accruals	bil. $	66.3	80.4	84.5	90.7	95.4	87.8	32.4
Surplus/deficit	bil. $	-102.9	-98.6	-92.3	-87.5	-80.2	-98.7	-12.8
State and local governments:								
Income taxes	bil. $	119.4	126.3	129.9	132.4	135.1	130.9	9.6
Corporate prof. tax accruals	bil. $	13.5	17.4	19.3	21.5	22.7	20.2	49.6
Surplus/deficit	bil. $	35.1	37.8	39.7	41.5	43.6	40.7	16.0

* Historical Data (1) % change over previous year

BUDGETS

business from 1983 through 1985 will provide enough room for releaving any upward pressures on interest rates.

Sources and Uses of Funds
(By calendar year, billions $)

Sources	1982	1983	1984	1985
Total funds of households, state and local govts., and finance	237.1	246.9	268.3	281.4
Uses				
Federal government	143.7	124.2	105.3	88.9
Business	77.3	100.8	130.2	158.2
Rest of the World	16.1	21.9	32.8	34.3
Total uses:	237.1	246.9	268.3	281.4

Concerning state and local governments, there has been a small downward adjustment in the projection of business taxes and surpluses.

1.60 INCOME

(Table 1.60 on page 19)

Good signal

Personal income went up in April by 0.7 per cent. That was the best gain since last November. Even more encouraging than that gain is the fact that the increase was mainly due to the change in the personal income's important component: compensation of employees. That is, wages and salaries have risen.

Both indicators (personal income, compensation of employees) point out that the recession is bottoming out. However, they do not indicate that it is over. The developments support the view that the economy will not

TABLE 1.60 INCOME
(Quarterly data are seasonally adjusted at annual rates)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Personal income	bil. $	2404.1	2511.4	2530.6	2542.3	2568.7	2538.3	5.6
Personal disposable income	bil. $	2016.0	2113.3	2127.9	2161.9	2176.8	2145.0	6.4
Compensation of employees	bil. $	1771.6	1844.7	1853.1	1872.3	1918.5	1872.2	5.7
Corporate after tax profits	bil. $	155.5	118.1	120.0	123.1	131.2	123.1	-20.8
Personal saving	bil. $	107.6	113.8	120.6	140.7	131.6	126.7	17.8
Average weekly earnings	bil. $	316.8	320.5	326.3	334.9	338.4	330.2	4.2

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Personal income	bil. $	2538.3	2618.7	2680.7	2759.6	2820.7	2719.9	7.2
Personal disposable income	bil. $	2145.0	2202.1	2259.9	2365.3	2409.7	2309.2	7.7
Compensation of employees	bil. $	1872.2	1958.2	2001.4	2030.7	2058.2	2012.1	7.5
Corporate after tax profits	bil. $	123.1	140.5	148.7	158.3	165.0	153.1	24.4
Personal saving	bil. $	126.7	129.2	130.3	148.9	146.6	138.8	9.6
Average weekly earnings	bil. $	330.2	343.8	350.2	356.2	361.1	352.8	6.8

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Personal income	bil. $	2719.9	2873.5	2982.4	3056.1	3159.7	3017.9	11.0
Personal disposable income	bil. $	2309.2	2443.7	2538.7	2593.9	2680.8	2564.3	11.0
Compensation of employees	bil. $	2012.1	2102.4	2170.6	2246.3	2296.5	2204.0	9.5
Corporate after tax profits	bil. $	153.1	170.1	172.8	175.4	179.2	174.4	13.8
Personal saving	bil. $	138.8	144.3	140.5	145.7	146.9	144.4	4.0
Average weekly earnings	bil. $	352.8	370.4	376.2	381.1	384.3	378.0	7.1

* Historical Data (1)% change over previous year

INCOME

"nose dive". At the same time, it does not indicate that we are getting out of the recession right now.

KEDI's projection shows the upward trend in personal disposable income will continue this year and in the following years through 1985. That is not as good as it sounds because price gains will be roughly in line with the income increases. In a nutshell, it will not be until 1985 and the years after that such income will meaningfully increase. A projection is presented.

Real per Capita Personal Disposable Income

(% change over previous year)

1982	-1.4	1984	+.1
1983	-.6	1985	+1.8

1.70 MONEY AND CREDIT

(Table 1.70 on page 21)

The forecast of the basic money supply, M1, has been increased above the Federal Reserve target of 2.5-5.5 per cent growth in 1982. Now, KEDI anticipates a rise of 6.5 per cent this year. Prior to this time, this Institute had not anticipated the level of gains in M1 that took place in May and the first part of June.

Alan C. Lerner of Bankers Trust Co. speculated that M1 could gain at an annual rate near 20 per cent next month. KEDI does not agree that it will be that high.

It is anticipated here that the Federal Reserve will keep relaxing the tight money policy for the next several months until clearer signs of

TABLE 1.70 MONEY AND CREDIT
(Data for "Currency and demand deposits","Time deposits, adjusted,M2", and "Large denomination time deposits" are averages of daily figures; other data are end of period figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Currency and demand deposits	bil. $	427.1	443.5	453.8	461.9	469.7	457.2	7.0
Time deposits, adjusted, M2	bil. $	1723.4	1850.8	1860.4	1871.2	1879.7	1865.6	8.3
Consumer instal. credit	bil. $	333.4	327.1	335.0	342.1	348.5	348.5	4.5
Commerc.&indus. loans at banks	bil. $	360.6	371.5	376.8	381.8	388.9	388.9	7.8
Large denomination time dep.	bil. $	305.5	317.0	324.8	331.5	334.8	334.8	9.6
Mortgages at S & L Assns.	bil. $	518.4	515.1	517.7	520.4	527.8	527.8	1.8

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Currency and demand deposits	bil. $	457.2	477.2	483.1	488.9	493.9	485.9	6.3
Time deposits, adjusted, M2	bil. $	1865.6	1925.6	1958.9	1993.4	2025.6	1975.9	5.9
Consumer instal. credit	bil. $	348.5	356.3	361.5	368.7	376.4	376.4	8.1
Commerc.&indus. loans at banks	bil. $	388.9	396.7	405.6	414.5	420.1	420.1	8.0
Large denomination time dep.	bil. $	334.8	338.3	342.6	350.8	359.7	359.7	7.4
Mortgages at S & L Assns.	bil. $	527.8	531.6	537.4	547.8	554.2	554.2	5.0

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Currency and demand deposits	bil. $	485.9	498.4	508.4	519.9	524.4	512.8	5.5
Time deposits, adjusted, M2	bil. $	1975.9	2059.7	2108.6	2164.8	2216.4	2137.4	8.2
Consumer instal. credit	bil. $	376.4	381.2	385.4	393.6	401.5	401.5	6.6
Commerc.&indus. loans at banks	bil. $	420.1	427.1	343.5	444.2	450.7	450.7	7.3
Large denomination time dep.	bil. $	359.7	363.4	371.5	381.6	388.7	388.7	8.1
Mortgages at S & L Assns.	bil. $	554.2	562.3	570.1	581.2	590.4	590.4	6.5

* Historical Data

(1) % change over previous year

MONEY AND CREDIT

recovery emerge. The opinion of Albert Cox of Merrill Lynch Economics is shared: That is, easing money in a recession is not necessarily inappropriate.

Mr. Volcker acknowledged that M1 has grown somewhat faster than the target range, but he did not find it upsetting if it was viewed as reflecting a savings or precautionary motive of a transaction demand. It is likely the Fed will not hastily react to the money supply increase given the recession--a view expressed by David Jones of Aubrey G. Lanston that is shared here.

KEDI's forecast for M2 remains essentially unchanged. There is also no change in the projection of consumer credit, bank loans, and mortgages beyond fractional adjustments.

1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES

(Table 1.80 on page 23)

The interest rates projections have been slightly increased for this year, but the changes are small. Now, for example, it is forecast here that Treasury bills will be at 12.07 at the end of the year as compared with 11.98 in the May Survey. The prime rate is now seen as being at 15.02 at the end of this year as compared with 14.72 previously.

KEDI maintains the long-term projection that interest rates will slowly decline. This Institute does not agree with the view that such rates will be increasing in the autumn of this year as some are predicting. The view that the combination of U.S. government borrowing and money supply growth means higher interest rates must come is not a view that is adhered to here. Some project Treasury borrowing around $100 billion for the second

TABLE 1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES
(Quarterly averages of monthly figures)

Indicator	Unit	1981*	1982				1982	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	14.03	12.81	12.92	13.01	12.78	12.88	-8.2
Prime rate	%	18.87	16.27	16.35	16.04	15.32	16.00	-15.2
Conventional mortgages rate	%	16.52	17.28	17.20	16.91	16.48	16.97	2.7
Aaa corporate bonds rate	%	14.17	15.01	14.67	14.23	13.95	14.47	2.1
20 years Govt. bonds yield	%	13.72	14.27	14.11	13.89	13.74	14.00	-2.0
Standard & Poor's 500 avg.	1941-43=100	128.05	114.25	124.02	127.43	125.89	122.90	-4.0

Indicator	Unit	1982	1983				1983	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	12.88	12.46	12.79	13.16	12.94	12.84	-.1
Prime rate	%	16.00	15.14	15.26	15.43	15.11	15.24	-4.7
Conventional mortgages rate	%	16.97	16.37	15.82	15.36	15.07	15.66	-7.6
Aaa corporate bonds rate	%	14.47	13.74	13.62	13.41	13.68	13.61	-5.9
20 years Govt. bonds yield	%	14.00	13.56	13.42	13.36	13.31	13.41	-4.2
Standard & Poor's 500 avg.	1941-43=100	122.90	126.47	125.26	124.31	126.72	125.69	2.3

Indicator	Unit	1983	1984				1984	% (1)
			1	2	3	4		
Treasury bills (3 mo) yield	%	12.84	13.11	12.76	12.24	11.98	12.52	-2.5
Prime rate	%	15.24	14.96	14.65	14.13	13.71	14.36	-5.3
Conventional mortgages rate	%	15.66	15.24	15.02	14.87	14.54	14.92	-4.8
Aaa corporate bonds rate	%	13.61	13.75	13.24	12.96	12.73	13.17	-3.2
20 years Govt. bonds yield	%	13.41	13.56	13.42	13.19	13.07	13.31	-.8
Standard & Poor's 500 avg.	1941-43=100	125.69	128.47	129.52	130.74	129.76	129.62	3.1

* Historical Data

(1)% change over previous year

INTEREST RATES, YIELDS, AND SECURITIES PRICES

half of this year. KEDI's calculations show that Treasury borrowing will be more in the $80 billion range. Also, business demand in the fall will not be as "strong" as it is currently. The combination will help stabilize interest rates and may even contribute to slight declines. Otto Eckstein of Data Resources expressed the view that private credit demand will lessen in the coming three months. KEDI agrees and sees it as lessening into autumn also.

KEDI's projection of prices of bonds remains pessimistic. As shown in Table 1.80 no significant declines in bond yields are expected during this year. Declines are forecast for 1983. More normal conditions will be reached in 1984 and subsequent years.

The forecast for the stock market has been slightly reduced. For the rest of this year, the Dow Jones Industrials Average is seen as being in the 800-830 bracket. Some improvement to the 850-870 range in 1983 is seen. Standard & Poor's 500 is seen as slightly lower with the range being 123 - 127 in 1983 and 128 - 132 in 1984.

2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

In this issue, the Gross National Product in current dollars for the year 1981 has been selected for comparison. The actual figure is in Table 1.1 of the Survey of Current Business, No.3, March 1982 (U.S. Department of Commerce, Washington, D.C., monthly). Forecast data are from Business Forecasts 1981 (Federal Reserve Bank of Richmond, Richmond, Virginia, February 1981. Some forecasters were unable to catch the December 1980 revision of the Income and Product data, and their forecasts may deviate because of this reason. The following table shows the predictions of forecasters and deviations of forecast data.

Table 2.0 COMPARISONS OF ACCURACY OF PREDICTIONS

(Gross National Product. Billions current $)

Actual figure: 2925.5

Forecaster	Date of Forecast	Forecast	Page of Business Forecasts 1981	% of Accuracy
A.George Gols,Arthur D.Little	11/80	2788.7	6	-4.7
Albert T.Sommers, The Conference Board	11/20/80	2864.0	8	-2.1
Metropolitan Life	11/30/80	2847.9	10	-2.7
U.S.Trust Company,New York	12/80	2859.0	12	-2.3
United Business Service	12/8/80	2867.0	14	-2.0
Walter D.Fackler, University of Chicago	12/8/80	2868.0	14	-2.0
Peter H.Jedel Cities Service	12/23/80	2848.6	16	-2.6
J.A.Livingston	12/28/80	2835.0	18	-3.1
Peter L.Bernstein	11/1/80	2812.0	20	-3.9
American Statistical Assn. and National Bureau of Economic Research	11/80	2852.5	21	-2.5
AmeriTrust	11/80	2831.0	22	-3.2
Georgia State University	11/80	2851.4	23	-2.5
The First National Bank of Chicago	11/8/80	2831.0	24	-3.2
Manufacturers Hanover Trust	11/12/80	2763.4	25	-5.5
Chemical Bank	11/24/80	2861.0	26	-3.2
UCLA	12/80	2864.1	27	-3.1
Alex A. Burkholder, WGN Continental Broadcasting Co.	12/11/80	2795.4	29	-4.4
Edward S. Hyman,Jr. and Cyrus J. Lawrence, Inc.	12/11/80	2854.0	29	-2.4
Bankers Trust Company	12/10/80	2854.2	30	-2.4
Data Resources, Inc.	12/28/80	2852.0	32	-2.5
KEDI	12/30/80	2895.2	33	-1.0
Fidelity Bank	12/31/80	2872.0	34	-1.8
Morgan Guaranty Trust Company	1/6/81	2920.9	35	-.2
Chase Econometrics	1/7/81	2914.4	36	-.4
Equitable Life Assurance	1/9/81	2883.3	37	-1.4

3.0 HISTORICAL DATA SOURCES

For the reader's convenience listed below are sources of historical data series for the forecasts appearing in the Survey. The first column of the following table refers to the table in this Survey, the second column to the name of forecast series, and the third column identifies the historical source. The sources are: Survey of Current Business referred to as SCB (monthly, U.S. Department of Commerce, Washington, D.C.), Federal Reserve Bulletin, FRB, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly), Index of Industrial Production, G.12.3 Release, IIP, (Board of Governors of the Federal Reserve System, Washington, D.C., monthly).

Table 3.0 HISTORICAL DATA SOURCES

Table No.	Data Series	Source
1.10 REAL GROWTH	Gross national product, 1972$	SCB, Table 1.2
	Index of industrial production	IIP. page 2
	Unemployment rate	SCB, Blue pages
	Capacity utilization rate	FRB, Table 2.11
	Private housing starts	SCB, Blue pages
	Car sales	SCB, Blue pages
1.20 PRICES AND NOMINAL GNP	Consumer price index	SCB, Blue pages
	Producer price index	SCB, Blue pages
	Implicit GNP price deflator	SCB, Table 7.1
	Gross national product	SCB, Table 1.1
	Personal consumption expenditures	SCB, Table 1.1
	Gross private domestic investment	SCB, Table 1.1
1.30 EMPLOYMENT AND LABOR	Population	SCB, Blue pages
	Civilian labor force	SCB, Blue pages
	Employed	SCB, Blue pages
	-Agriculture	SCB, Blue pages
	-Non agriculture	SCB, Blue pages
	Unemployment rate	SCB, Blue pages

(Table 3.00 continues on the following page)

Table 3.0 HISTORICAL DATA SOURCES (Continued)

Table No.	Data Series		Source
1.41 HOUSING	Single-family housing starts		SCB, Blue pages
	Multifamily housing starts		SCB, Blue pages
	Mobile home shipments		SCB, Blue pages
	Permits authorized		SCB, Blue pages
	1-family unit price, new		FRB, Table 2.14
	1-family unit price, existing		FRB, Table 2.14
1.42 AUTOMOBILES	Passenger cars:	Total sales	SCB, Blue pages
		Domestic	SCB, Blue pages
		Imported	SCB, Blue pages
		Dealers inventories	SCB, Blue pages
		Factory shipments	SCB, Blue pages
	Light-duty truck sales		SCB, Blue pages
1.50 FEDERAL AND STATE AND LOCAL BUDGETS	Federal govt.:	Income taxes	SCB, Table 3.2
		Corp.profit tax accr.	SCB, Table 3.2
		Surplus/deficit	SCB, Table 3.2
	State and local governments:	Income taxes	SCB, Table 3.3
		Corp.profit tax accr.	SCB, Table 3.3
		Surplus/deficit	SCB, Table 3.3
1.60 INCOME	Personal income		SCB, Table 2.1
	Personal disposable income		SCB, Table 2.1
	Compensation of employees		SCB, Table 1.11
	Corporate after tax profits		SCB, Table 1.11
	Personal saving		SCB, Table 2.1
	Average weekly earnings		SCB, Blue pages
1.70 MONEY AND CREDIT	Currency and demand deposits, M1		FRB, Table 1.21
	Time deposits, adjusted, M2		FRB, Table 1.21
	Consumer installment credit		FRB, Table 1.56
	Commercial & industrial loans		FRB, Table 1.23
	Large denomination time deposits		FRB, Table 1.21
	Mortgages at S&L Associations		FRB, Table 1.55
1.80 INTEREST RATES, YIELDS, AND SECURITIES PRICES	Treasury bills (3 mo) yield		FRB, Table 1.10
	Prime rate		FRB, Table 1.33
	Conventional mortgages rate		FRB, Table 1.10
	Aaa corporate bonds rate		FRB, Table 1.35
	20 years Government bonds yield		FRB, Table 1.10
	Standard & Poor's 500 average		FRB, Table 1.36